

Message Text

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STADIS////////////////////////////////

E.O. 11652: GDS

TAGS: EGEN

SUBJECT: SENATE HEARINGS ON OPIC

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SUMMARY: OPIC OPERATIONS IN MALAYSIA ARE USEFUL TO US OBJECTIVES IN EASING INVESTMENT DECISIONS FOR AMERICAN COMPANIES. WHILE RELATIVELY LOW ASSESSMENT GIVEN TO POLITICAL RISKS IN MALAYSIA MEANS OPIC INSURANCE IS NOT VITAL TO INVESTMENT DECISION MAKING, ANTICIPATED LARGE SCALE INVESTMENTS IN PETROLEUM EXPLOITATION MAY IN TIME GIVE OPIC MORE CRITICAL ROLE. END SUMMARY.

1. PROVISION OF OPIC INSURANCE BY USG IN CONJUNCTION WITH BILATERAL INVESTMENT TREATY MAKES GOM MORE RECEPTIVE TO AMERICAN INVESTMENT AND ITS AVAILABILITY GIVES REASSURANCE TO AMERICAN INVESTORS EVEN WHEN THEY CHOOSE NOT TO USE IT. MEASURABLE IMPACT OF OPIC ON ACTUAL LEVEL OF INVESTMENT APPEARS MODEST, HOWEVER, MAINLY BECAUSE THE RISKS THAT OPIC INSURES AGAINST ARE NOT GREAT IN MALAYSIA AND ARE OF LESS CONCERN FOR INVESTORS
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HERE THAN THEY MAY BE ELSEWHERE. LARGE NUMBER OF

AMERICANS HAVE OPIC COVERAGE, BUT MAJORITY DO NOT, AND WE ARE DOUBTFUL THAT ANY INVESTMENT SO FAR IN MALAYSIA MATERIALLY AFFECTED BY OPIC GUARANTEE.

2. ABSENCE OF SIGNIFICANT IMPACT OF OPIC TO DATE
MAY REFLECT RELATIVELY SMALL SUMS INVESTED IN PAST. FOR EXAMPLE, FOR LARGE COMPANIES LIKE FORD OR TEXAS INSTRUMENTS INVESTMENT OF \$3-4 MILLION IN MALAYSIA IS INSIGNIFICANT PART OF CAPITAL STRUCTURE AND PLACEMENT IN MALAYSIA TURNS MAINLY ON FACTORS OTHER THAN OPIC RISKS. WHILE CONSERVATIVE COMPANY SUCH AS GOODYEAR CAUTIOUSLY CALCULATES OPIC COVERAGE SIMULTANEOUSLY WITH OTHER FACTORS, IN SEVERAL INSTANCES WE KNOW OF, TAKING OUT OF OPIC INSURANCE HAS BEEN INCIDENTAL TO DECISION TO INVEST IN MALAYSIA. THIS COULD CHANGE MATERIALLY AS LARGER SCALE AMERICAN INVESTMENT BEGINS TO FLOW INTO COUNTRY. EXXON AND CONOCO, WHOL MAY BE UNDERTAKING INVSTMENTS OF SEVERAL HUNDRED MILLION IN NEXT FEW YEARS, MIGHT VIEW AVAILABILITY OF OPIC AS CRITICAL TO FORM AND SIZE OF THEIR INVESTMENT HERE. NEITHER COMPANY WOULD ASSESS OPIC TYPE RISK AS IMPORTANT IN NEAR FUTURE; HOWEVER, AS DOMESTIC OIL INSTITUTIONS GAIN EXPERIENCE AND POSSIBLITY OF DOMESTIC OPERATION BECOMES MORE FEASIBLE, RISK OF SEIZURE MAY CORRESPONDINGLY INCREASE. OPIC COVERAGE WOULD BE RELEVANT TO THIS TYPE OF RISK BY REDUCING POSSIBLE LOSSES FROM SLOWER PAY OFF INVESTMENTS. THIS COULD MEAN A MORE SOUND CAPITAL STRUCTURE AND EXPLOITATION PATTERN FOR THE AMERICAN OIL COMPANIES IN MALAYSIA. IF SO OPIC WOULD MAKE A SIGNIFICANT CONTRIBUTION TO US IMAGE AND TO OUR POLITICAL INTERESTS IN THIS COUNTRY.

3. WE HAVE NOT EXPERIENCED SIGNIFICANT PROBLEMS WITH OPIC OPERATIONS AND DO NOT BELIEVE LESS STRICT RISK MANAGEMENT WOULDHOYODUCE GREATER FLOW OF DURABLE US INVESTMENT. THERE HAVE BEEN NO CLAIMS ARISING IN MALAYSIA THUS ARBITRATION AND SUBROGATION REQUIREMENTS ARE ABSTRACT ISSUES DIMLY SEEN IF AT ALL, BY MALAYSIANS. NATIONAL SENSITIVITIES HAVE NEVER BEEN AROUSED BY OPIC, IN FACT GOM APPEARS PLEASED
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WITH OPIC ARRANGEMENT AND WE BELIEVE TENDS REGARD US SOURCES OF INVESTMENT MORE FAVORABLY BECAUSE OF PROTECTIONS OPIC AND BILATERAL INVESTMENT TREATY AFFORD. GOM HAS CITED US BILATERAL AND OPIC AS DESIRABLE MODEL FOR OTHER GOVTS TO FOLLOW AND HAS SENT SEVERAL EMBASSIES TO SEEK OUR GUIDANCE IN ESTABLISHING SIMILAR ARRANGEMENTS. WHILE GOM BELIEVES THAT INVESTORS HAVE NOTHING TO WORRY ABOUT RE POLITICAL RISKS OPIC INSURES, THEY

ALSO SOPHISTICATED ENOUGH TO REALIZE THAT EASE OF OBTAINING
INSURANCE FOR AN AMERICAN INVESTMENT IN MALAYSIA ACCENTUATES
MALAYSIAS FAVORABLE IMAGE AS A SITE FOR POLITICALLY SECURE INVEST
MENT. FOR THIS RESON MALAYSIA HAS ENCOURAGED OTHER COUNTRIES
TO NEGOTIATE BILATERAL INVESTMENT TREATIES AND ESTABLISH THEIR
OWN OPIC FACILITIES.
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